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Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 DOTE-00 SPC-03 AID-20 EB-11 NSC-10

RSC-01 CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02

CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12

LAB-06 SIL-01 L-03 H-03 SCEM-02 SCI-06 IGA-02 AGR-20

DODE-00 PA-04 PRS-01 SPM-01 HUD-02 FPC-01 INT-08

USIE-00 DRC-01 /191 W
---------- 003912
R 151436Z NOV 73
FM AMEMBASSY QUITO
TO SECSTATE WASHDC 9176
INFO AMCONSUL GUAYAQUIL

LIMITED OFFICIAL USE SECTION 1 OF 2 QUITO 5914

PASS COMMERCE, USIA/ILA AND IOP

E.O. 11652: N/A
TAGS: BEXP, EC
SUBJECT: COMMERCIAL PROGRAM FOR ECUADOR

1. SUMMARY: SCARCITY PRICING OF PETROLEUM, ECUADOR'S PRINCIPAL EX-
PORT, IS INCREASING GOVERNMENT REVENUE AND IMPORT CAPACITY MORE
RAPIDLY
THAN ANTICIPATED. UNDER MODERATELY CONSERVATIVE ASSUMPTIONS THE
EMBASSY POSTULATES ANNUAL AVERAGE IMPORT GROWTH OF 25 PERCENT TO
1976 AND ESTIMATES ANNUAL U.S. SALES OF $300-350 MILLION BY 1975.
THIS MESSAGE LAYS OUT THE ECONOMIC SETTING TO 1976, SCHEDULES
PRIORITIES FOR EMBASSY/CONGEN COMMERCIAL ACTIVITIES WITHIN EXISTING
RESOURCES AND PROPOSES MEASURES REQUIRING WASHINGTON SUPPORT TO
POSITION THE U.S. IN ECUADOR'S IMPORT MARKET DURING ITS RAPID
GROWTH PHASE. ACTION REQUESTED: A) DESIGNATE ECUADOR A TARGET
MARKET, B) INCLUDE ECUADOR IN CCP PLANNING EXERCISE, C) SCHEDULE
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MINIMUM OF TWO TRADE MISSIONS AND TWO CATALOG SHOWS ANNUALLY.

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END SUMMARY.

2. THE ECONOMIC SETTING TO 1976 - ECUADOR OCCUPIES A UNIQUE POSITION AMONG THE SOUTH AMERICAN COUNTRIES. FIRST, IT IS ONE OF THE LESSER DEVELOPED OF THE DEVELOPING NATIONS WITHIN THE ANDEAN PACT. THUS, THERE IS NEED FOR IMPROVEMENT IN ALMOST EVERY ASPECT OF THE PRIVATE AND PUBLIC SECTORS. SECOND, ECUADOR, AS A PETROLEUM EXPORTER HAS FOR THE FIRST TIME THE RESOURCES TO FINANCE THE BEGINNINGS OF A LARGE-SCALE DEVELOPMENT EFFORT. ECUADOR HAS ALSO SUDDENLY BECOME A CREDIT-WORTHY COUNTRY: LENDING INSTITUTIONS ARE OFFERING LARGE SUMS FOR PUBLIC SECTOR PROJECTS; FOREIGN BANKING FACILITIES ARE EAGER TO LEND. AS A RESULT, ECUADOR IS IN A BUYING AND BUILDING MOOD.

3. ECUADOR IS IN THE FOURTH YEAR OF AN ECONOMIC BOOM SPARKED BY DEVELOPMENT OF THE PETROLEUM INDUSTRY. GROWTH STATISTICS IN SOME SECTORS ARE IMPRESSIVE. REAL GDP GREW 9.9 PERCENT ANNUALLY 1969-72 (PRELIMINARY DATA), AND AN IMPROVEMENT ON THAT RATE IS EXPECTED IN 1973. THE LEADING SECTORS, APART FROM CRUDE PETROLEUM PRODUCTION, HAVE BEEN CONSTRUCTION (21 PERCENT REAL ANNUAL GROWTH 1969-72) AND UTILITIES (15 PERCENT). MANUFACTURING HAS GROWN MORE MODERATELY AT 8.4 PERCENT REAL GROWTH PER YEAR, WHILE THE GROWTH OF AGRICULTURAL PRODUCTION (EXCEPT EXPORT CROPS) HAS LAGGED BEHIND POPULATION GROWTH FOR MANY YEARS. THE GOVERNMENT SECTOR GREW AT 8.1 PERCENT ANNUALLY 1969-72, LESS RAPIDLY THAN THE ECONOMY AS A WHOLE.

4. THE EMBASSY EXPECTS RAPID GROWTH TO CONTINUE THROUGH 1976, SINCE THE IMPETUS OF THE PETROLEUM AND GOVERNMENT SECTORS WILL BE GREATER IN THE NEXT SEVERAL YEARS THAN IN THE 1969-72 PERIOD OF REFERENCE. GROWTH MAY BE MORE BROADLY BASED, ALTHOUGH CONCENTRATED IN THE URBAN AREAS. THE CONSTRUCTION INDUSTRY WILL CONTINUE TO PROSPER AND TO REQUIRE MASSIVE ADDITIONS TO ITS CAPITAL STOCK AND FREQUENT INFUSIONS OF ENGINEERING SERVICES AND OTHER KNOW-HOW. WHEREAS CONSTRUCTION OF THE OIL PIPELINE ACCOUNTED FOR A GOOD SIZED CHUNK OF THE 1970-72 GROWTH OF THE CONSTRUCTION INDUSTRY, INFRASTRUCTURE DEVELOPMENT PROJECTS, FINANCED BY GOE OIL REVENUES AND LOANS FROM INTERNATIONAL FINANCIAL INSTITUTIONS, WILL STRAIN THE CAPACITY OF THE CONSTRUCTION INDUSTRY IN THE NEXT SEVERAL YEARS, AS WILL THE DYNAMIC URBAN GROWTH OF QUITO AND TO A LESSER EXTENT GUAYAQUIL. MAJOR ELECTRIFICATION PROJECTS WILL ADD SUBSTANTIALLY TO GENERATING CAPACITY. THE TRANSPORTATION SECTOR ALSO WILL STEADILY EXPAND WITH INCREASED
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MOVEMENT OF GOODS.

5. ALL OBSERVERS AGREE THAT THERE IS GREAT POTENTIAL FOR EXPANDING AGRICULTURE AND AGRO-INDUSTRIES, BUT IT IS NOT LIKELY TO BE REALIZED WITHIN THE 1976 HORIZON. THERE IS SOME EVIDENCE OF RISING INVESTMENT IN AGRICULTURE THIS YEAR. ON THE OTHER HAND, THE PRESENT GOVERNMENT IS AS UNWILLING AS ITS PREDECESSORS TO PERMIT AGRICULTURAL PRICES

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TO RISE FREELY. LIKEWISE, THE AGRARIAN REFORM LAW IS TOO NEW TO PREDICT ITS NET EFFECT ON AGRICULTURAL INVESTMENT.

6. THE GROWTH OF FOREIGN TRADE IS EVEN MORE SPECTACULAR THAN THE GROWTH OF GDP. IMPORTS WILL SURPASS $400 MILLION IN 1973 AND COULD DOUBLE THE 1969 VOLUME OF $209 MILLION. THE ECONOMY SHOULD SUPPORT IMPORTS OF AT LEAST $700 MILLION BY 1975 AND WELL OVER $800 MILLION BY 1976. EVEN BY CONSERVATIVE PROJECTIONS, THE PETROLEUM INDUSTRY ALONE WILL SUFFICE TO IMPROVE ECUADOR'S BALANCE OF PAYMENTS BY $400 MILLION IN COMPARISON WITH 1973. THUS IMPORTS CAN EASILY QUADRUPLE FROM 1969 TO 1976. THE U.S. SHARE OF ECUADOREAN IMPORTS HAS BEEN 38-42 PERCENT IN RECENT YEARS. CONSEQUENTLY, IMPORTS FROM THE U.S. SHOULD BE $300-350 MILLION IN 1975, AGAINST $83 MILLION IN 1969 AND $114 MILLION IN 1971.

7. IN SUM, ECUADOR IS BECOMING AN IMMENSELY MORE ATTRACTIVE TRADING PARTNER. MOREOVER, ECUADOR'S IMPORT REGIME IS LIBERAL BY SOUTH AMERICAN STANDARDS. SMALL SCALE INVESTMENT OPPORTUNITIES ARE ALSO PLENTIFUL, AND ON THE GOE'S TERMS THERE ARE SOME OPPORTUNITIES OF MODERATE SIZE.

8. COMMERCIAL LONG-TERM GOALS

A) INCREASE U.S. SHARE OF ECUADOREAN IMPORTS. REESTABLISH STRENGTH IN CATEGORIES WHICH PASSED INTO THE HANDS OF COMPETITORS; E.G. AGRICULTURAL IMPLEMENTS, OFFICE MACHINES, TEXTILE MACHINERY.

B) IDENTIFY UPCOMING ENGINEERING AND CONSTRUCTION PROJECTS AND MAJOR PURCHASES. PROVIDE PRIORITY ASSISTANCE TO INTERESTED U.S. FIRMS.

C) PROTECT EXISTING U.S. INVESTMENTS AND ASSIST INTERESTED INVESTORS WITH THEIR PROBLEMS IN ESTABLISHING BUSINESS.
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ACTION ARA-20

INFO OCT-01 ISO-00 SPC-03 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 USIE-00

CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12

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SCI-06 IGA-02 AGR-20 SPM-01 HUD-02 FPC-01 INT-08

DOTE-00 DRC-01 /191 W

---------- 004815

R 151436Z NOV 73
FM AMEMBASSY QUITO
TO SECSTATE WASHDC 9177
INFO AMCONSUL GUAYAQUIL

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9. FY7' AND FY75 OBJECTIVES PRIMARILY WITHIN FIELD RESOURCES

THE GOE IS READY TO COMMIT RESOURCES TO THE RAPID EXPANSION OF THE ECONOMIC INFRASTRUCTURE. FOREIGN TECHNOLOGY, FINANCING AND SERVICES ARE REQUIRED TO PLAN AND EXECUTE THE CONTEMPLATED LARGE PROJECTS. THUS, ASSISTANCE TO U.S. FIRMS TO CAPTURE MAJOR PROJECTS IS THE MOST PROMISING AREA FOR MISSION TRADE PROMOTION EFFORTS. IN ADDITION, THE MISSION WILL ATTEMPT TO INCREASE DIRECT EXPORTS THROUGH THE TRADE OPPORTUNITY PROGRAM, IMAGINATIVE USE OF USIS CAPABILITIES AND ATTENTIVE PERFORMANCE OF STANDARD COMMERCIAL FUNCTIONS. ASSISTANCE TO NEW U.S. INVESTORS IN FORMING JOINT AND MIXED VENTURES WILL REQUIRE PARTICULAR ATTENTION. ECUADOR INCREASINGLY

PREFERS THESE FORMS OF INVESTMENT, ESPECIALLY FOR LARGER SCALE ENTERPRISES IN BASIC INDUSTRIES.

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A) ASSIST U.S. FIRMS TO CAPTURE MAJOR PROJECTS.

12 WORK ON FOLLOWING SCHEDULED PROJECTS AND SALES: PETROLEUM REFINERY, FISHING COMPLEX, GUAYAQUIL PORT, CIVIL AIRCRAFT, AIRPORT FEASIBILITY, QUITO-GUAYAQUIL HIGHWAY FEASIBILITY, PETROCHEMICALS. PROMOTE MILITARY SALES TO EXTENT POLICIES PERMIT.

2) IDENTIFY ADDITIONAL MAJOR PROJECTS/SALES BY CLOSE CONTACT

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WITH ECUADOREAN AGENCIES, U.S. BIDDERS AND FINANCIAL INSTITUTIONS.
REALIZE THAT SHORT LEAD-TIME ON BIDS REQUIRES EARLY WARNING RE-
PORTING.

B) PROMOTE DIRECT EXPORTS, ESPECIALLY BY U.S. TARGET INDUSTRIES.

1) SEARCH FOR TRADE OPPORTUNITIES IN THE TARGET INDUSTRIES
THROUGH APPROACHES TO RELEVANT GOVERNMENT AND PRIVATE INSTITUTIONS.
CONTINUE SUCCESSFUL PROGRAM OF ENCOURAGING GOE ENTITIES TO BRING
MEANINGFUL TRADE OPPORTUNITIES TO MISSION ATTENTION.

2) WITH USIS COOPERATION AND RESOURCES, SCHEDULE FOR
QUITO AND GUAYAQUIL AN AGRICULTURAL PRODUCTIVITY SEMINAR IN FY74
AND AN INDUSTRIAL MANAGEMENT SEMINAR IN FY75 TO PROMOTE
AGRICULTURAL/FOOD PROCESSING EQUIPMENT AND OFFICE MACHINES,
RESPECTIVELY. (REF. QUITO 5663)

3) PRESENT SLIDE/TAPE SHOW ON EXIMBANK SERVICES FOR LOCAL
BANKERS AND BUSINESSMEN.

4) UPGRADE POST'S BOLETIN COMERCIAL WITH ADDITION OF
PHOTOGRAPHS; REPORT EFFECTIVENESS.

5) FACILITATE GROUP BUSINESS TRAVEL IN COOPERATION WITH
LOCAL CHAMBERS OF COMMERCE.

6) PUBLICIZE VISITS TO ECUADOR BY SIGNIFICANT U.S. EXPORTERS
AND POTENTIAL INVESTORS.

C) INCREASE ATTENTION TO COMMERCIAL FUNCTION.

1) THE INTERAGENCY COMMERCIAL TASK FORCE WILL MEET PERIODI-
CALLY TO COORDINATE INFORMATION/ACTION RELATED TO EXPORT
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PROMOTION EFFORT.

2) UPDATE AND EXPAND REFERENCE WORKS IN QUITO AND GUAYA-
QUIL COMMERCIAL LIBRARIES USING NEW $1500 ALLOTMENT.

D) ASSIST NEW INVESTORS.

FQL PROMOTE U.S. LICENSING AGREEMENTS OR INVESTMENT,
ESPECIALLY JOINT VENTURES IN INDUSTR

S WHICH ARE A PART OF THE
GOVERNMENT'S ECONOMIC DEVELOPMENT PLANS. SEEK OUT AND REPORT NEW
LICENSING AND JOINT VENTURE OPPORTUNITIES IN MANUFACTURING AND
PUBLICIZE THESE.

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2) PREPARE GUIDE ON DOING BUSINESS IN ECUADOR. INCLUDE
INFORMATION ON TAX AND LABOR LAWS, INVESTMENT CONCESSIONS, ANDEAN
PACT REGULATIONS AND JOINT AND MIXED VENTURE OPPORTUNITIES.

10. OBJECTIVES FOR FY74 AND FY75 REQUIRING WASHINGTON DECISIONS
AND SUPPORT - IN ORDER TO TAKE ADVANTAGE OF OPPORTUNITIES TO MAXI-
MIZE U.S. SALES TO THE EXPANDING ECUADOREAN MARKET, WE REQUIRE SUB-
STANTIAL ASSISTANCE FROM WASHINGTON WITH TRADE PROMOTION EVENTS.

A) ENCOURAGE ENTRY OF NTE/NTM FIRMS AND INCREASE DIRECT EXPORT
SALES OF THE U.S. TARGET INDUSTRIES.

1) DESIGNATE ECUADOR A TARGET MARKET AND SCHEDULE PARTICI-
PATION IN WASHINGTON-FIELD PLANNING EXERCISE (CCP). THE RAPID EN-
HANCEMENT OF ECUADOR'S ATTRACTIVENESS AS A TRADING PARTNER WARRANTS
CONSIDERATION OF ITS DESIGNATION AS AN EMERGING MARKET WHILE IT IS
IN THE EARLY STAGE OF EXPANSION. THAT DONE, WASHINGTON AND THE
FIELD SHOULD PLAN AGREED GOALS/OBJECTIVES/RESOURCES IN DETAIL.

2) SCHEDULE TRADE MISSIONS AS THE PRIMARY VEHICLE FOR PRO-
MOTING TARGET INDUSTRIES. AN AGRICULTURE/FOOD PROCESSING TRADE
MISSION IS SCHEDULED FOR FY75 IN QUITO. A MINIMUM PROGRAM FOR THE
ECUADOREAN MARKET, ONE THAT CAN BE SUPPORTED WITH EXISTING FIELD
PERSONNEL RESOURCES, CONSISTS OF TWO TRADE MISSIONS PER FY, PREFER-
ABLY ONE EACH IN QUITO AND GUAYAQUIL, SELECTED FROM AMONG THE FOLLOW-
ING TARGET INDUSTRIES:
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A) FOOD PRODUCTS INDUSTRIES AND PACKAGING EQUIPMENT
B) AGRICULTURAL EQUIPMENT
C) EARTHMOVING AND MINING MACHINERY
D) METAL WORKING AND FINISHING MACHINERY
E) ELECTRICITY GENERATING AND SWITCHING EQUIPMENT
F) BUSINESS EQUIPMENT AND SYSTEMS

WITH ADDITIONAL RESOURCES TO CONTRACT OUTSIDE MARKET
RESEARCH OR HIRE LOCAL PERSONNEL TO PERFORM SUCH RESEARCH,
MORE TRADE MISSIONS COULD BE SCHEDULED.

3) PROVIDE CATALOG SHOWS AS A SECOND VEHICLE FOR
PROMOTING TARGET INDUSTRIES BETWEEN TRADE MISSIONS TO
MAINTAIN THE MOMENTUM OF THE TRADE PROMOTION PROGRAM.
CATALOGS AND ACCOMPANYING EXPERT CAN BE PROGRAMMED FOR
ECUADOR AFTER SHOWINGS AT THE BUENOS AIRES TRADE CENTER
OR IN COLOMBIA OR VENEZUELA AT LITTLE ADDITIONAL COST TO
THE U.S. GOVERNMENT.

4) SCHEDULE U.S. PARTICIPATION IN THE 1975 GUAYAQUIL
INTERNATIONAL FAIR ON SCALE TO BE INDICATED BY CONGEN

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GUAYAQUIL'S EVALUATION OF OCTOBER 1973 FAIR AS VEHICLE FOR
TRADE PROMOTION.

11. ACTION REQUESTED:

A) DESIGNATE ECUADOR A TARGET MARKET,
B) INCLUDE ECUADOR IN CCP PLANNING EXERCISE,
C) SCHEDULE MINIMUM OF TWO TRADE MISSIONS AND TWO CATALOG
SHOWS ANNUALLY.
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Disposition Date: 28 MAY 2004
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